

CHINA'S WTO ACCESSION AND AMERICAN SERVICES TRADE

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Washington, D.C.

March 6, 2000

Good morning, and thank you very much.

I am very pleased to be here with the Institute this morning, and for the opportunity to speak with you and exchange views on one of the most important American trade and foreign policy goals in many years: China's accession to the WTO.

ONE-WAY CONCESSIONS

In the most basic sense, when we consider China's WTO accession and permanent Normal Trade Relations, we are facing a clear choice.

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession. It secures broad-ranging, comprehensive, one-way trade concessions on China's part, granting the United States substantially greater market access across the spectrum of services, industrial goods and agriculture. This agreement strengthens our guarantees of fair trade. And it gives us far greater ability to enforce Chinese trade commitments. By contrast, we agree only to maintain the market access policies we already apply to China, and have for over twenty years, by making China's current Normal Trade Relations status permanent.

DEEPER ISSUES

One might end a discussion of the WTO accession right there. From a purely trade policy perspective, it would not be wrong to do so; but we must also think about the wider implications.

China is the world's largest country, and over the past decade the world's fastest-growing major economy. The future course of our relationship will have great bearing on American security and strategy in the 21st century. And our relationship with China today, as we all know, is free neither of deep-seated policy disagreements nor moments of tension.

These are perhaps natural; we are great Pacific powers, and our governments reflect vastly different political systems and values. But to quote the classical Chinese poet Qu Yuan, writing in the 4th century B.C., such a relationship poses profound questions for future peace and stability across much of the earth:

“Eagles do not flock together like birds of lesser wing;
thus it has been since ancient times.
How is the round to fit with the square?
How can different ways of life be reconciled?”

Such questions dominate our China debate today. And many thus ask why we would proceed with a trade agreement -- even an entirely one-sided trade agreement -- while our differences over human rights, security issues and other topics remain. It is fair -- I believe necessary -- to judge the WTO accession in light of these questions as well. And we can begin by tracing back to its origin the institution China now seeks to join.

AMERICA AND THE TRADING SYSTEM

Today's World Trade Organization has its roots in the General Agreement on Trade and Tariffs, or GATT. And its creation in 1948 reflected the lessons President Truman and his Allied counterparts drew from personal experience in Depression and war.

One of the failures they had seen in the 1930s was the inability of global leaders to resist a cycle of protection and retaliation, including the Smoot-Hawley Act in the United States and colonial preference schemes in Europe, which had deepened the Depression and contributed to the political upheavals of the era. Eighteen years later, they believed that by reopening world markets they could restore economic health and raise living standards; and that, in tandem with a strong and confident security policy, as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

Thus the GATT was one in a series of related policies and institutions that have served us well for nearly six decades:

- Collective security, reflected by the United Nations, NATO and our alliances with Japan, South Korea, and other Pacific democracies.
- Commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions.
- Open markets and economic stability, with the creation of the IMF and World Bank on the one hand, and the GATT on the other.

Together, these made up a coherent vision of a peaceful and open world; which over half a century of experience has fully vindicated. Since the 1950s, global trade has grown fifteen-fold. World economic production has grown six-fold, and per capita income nearly tripled. And social progress reflects these trends: since the 1950s, world life expectancy has grown by twenty years, infant mortality has dropped by two-thirds, and famine receded from all but the most remote or misgoverned corners of the world. And -- as Truman and his colleagues predicted -- in tandem with a consistent security policy and growing respect for human rights, the world has become substantially more prosperous, stable and peaceful.

CHINA FROM REVOLUTION TO REFORM

China, of course, took a very different road.

With the Communist revolution in 1949, it shut the doors it had once tentatively opened to the world. Among its new leaders' first steps were to expel foreign businesses from China, and to bar direct economic contact between Chinese private citizens and the outside world. Inside China were similar policies – destruction of private internal trading networks linking Chinese cities and villages, abolition of private property and land ownership, and of course suppression of any right to object to these policies. And all this had international effects as well: Asia's largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders.

In essence, the commitment of our postwar leaders to collective security, open markets and human rights made up a coherent vision of a peaceful and open world. And China's rejection of these concepts in the Maoist era made up an equally coherent and consistent policy. Its economic isolation in the 1950s and 1960s can be separated neither from its diminishing space for individual life and freedom at home, nor its revolutionary role in the Pacific region.

China's domestic reforms since the 1970s have helped undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. And American trade policy over 30 years -- from the lifting of the trade embargo in 1972, to our Commercial Agreement and grant of Normal Trade Relations in 1979, to more recent agreements on market access, intellectual property, textiles and agriculture -- has worked with this trend, to create trade opportunities for Americans, and support reformers in China.

CHINA ACCESSION

The bilateral agreement we reached with China last November is the culmination of this patient, detailed work. It is a comprehensive agreement covering the spectrum of industrial goods, services, farm products, unfair trade practices, and all the barriers to American exports.

In services, China's markets will open for distribution, telecommunications, financial services, professional, business and computer services, motion pictures, environmental services, accounting, law, architecture, construction, travel and tourism, and other industries. Here we take advantage of some of the trading system's newest features, in the WTO's Agreements on Financial Services and Basic Telecommunications.

The Financial Services Agreement, covering nearly \$60 trillion in banking, insurance and securities transactions each year, is history's largest single trade agreement ever. Though it went into force just a short time ago -- the little fellow's first birthday was just last Wednesday -- it has already helped American banks, securities firms and insurance companies expand operations and find new market opportunities, through ownership of and investment in foreign banking

institutions, brokerage and insurance sectors, as well as through cross-border trade. Its direct value is already becoming evident in statistics: in 1998, Americans exported \$13.7 billion worth of financial services; and while we do not have final figures for 1999, as the Financial Services Agreement went into effect, this may have grown fully 10%, to about \$15 billion.

The Agreement on Basic Telecommunications is equally significant. Opening world markets in a sector dominated for 60 years by monopolies and promoting pro-competitive regulatory principles, in just two years, it has eroded the ability of dominant carriers in foreign countries to keep rates artificially high and depress demand for telecommunications services and electronic commerce. It has already, for example, helped bring down rates to levels as low as 10 to 20 cents per minute, for calls between the U.S. and countries such as Japan and Mexico.

These are commitments China will accept as well. In some services fields -- for example, audiovisual -- China joins only a very few countries in making market access commitments. In some of them, including through participation in the Basic Telecom and Financial Services Agreements it will open markets now almost entirely closed -- as witness the rather pathetic total of \$49 million in financial service exports to China in 1998. To look at the financial industry:

- Today, only two U.S. insurers operate in China's market. China reserves the right to deny licenses on almost entirely arbitrary grounds, to restrict operations to particular cities and to terminate existing rights when it chooses to do so. With WTO accession, China agrees to award licenses solely on the basis of prudential criteria, with no economic-needs test or quantitative limits on the number of licenses issued; progressively eliminate geographic limitations within three years, and permit internal branching as these restrictions lift. Further commitments will enable foreign insurers to offer group, health and pension lines of insurance within five years; for non-life insurance, branch and joint-ventures at 51 percent equity share are permitted on accession, and wholly-owned subsidiary within two years. And for life insurance, joint ventures are permitted with the partner of choice at 50 percent equity share upon accession.
- The status quo in banking is equally restrictive. Foreign banks cannot now conduct local currency business with Chinese clients, and only a few can engage in local currency business even with foreign businesses or individuals. As in the case of insurance, China also imposes severe geographic restrictions on the establishment of foreign banks. With this agreement, China commits to full market access in five years for U.S. banks. China will allow internal branching and provide national treatment for all newly permitted activities. It will allow local currency business with Chinese enterprises starting two years after accession, and with Chinese individuals after five years.
- And in securities, China will permit minority foreign owned joint ventures to engage in fund management on the same terms as Chinese firms. Minority joint ventures will be allowed to underwrite domestic equity issues and underwrite and trade other securities (debt and equity). As the scope of business expands for Chinese firms, foreign joint

venture securities companies will enjoy the same expansion in scope of business. And China will hold regular consultations with the U.S. Treasury Department under the auspices of our Joint Economic Commission with China. The purpose of this is to exchange information and assist the development of China's financial and capital market.

And our bilateral agreement deals with our concerns in each other sector too.

For manufacturing, China will cut industrial tariffs from an average of 24.6% in 1997 to 9.4% by 2005. China will also eliminate all quotas and discriminatory taxes. And of critical importance, in virtually all products it will allow both foreign and Chinese businesses to market, distribute and service their products; and to import the parts and products they choose, free of requirements to go through government middlemen.

In agriculture, on U.S. priority products tariffs drop from an average of 31% to 14% by 2004. China will also expand access for bulk agricultural products through tariff-rate quotas; agree to end import bans, cap and reduce trade-distorting domestic supports, eliminate export subsidies, and abide by the WTO's Agreement on Sanitary and Phytosanitary Standards.

And the agreement strengthens protection of American workers and businesses against unfair trade practices, import surges, and investment practices intended to draw jobs and technology to China. It addresses state enterprise policies, forced technology transfer, local content, offsets and export performance requirements. It provides, for a 12-year period, a special product-specific safeguard to address market-disrupting import surges from China. And it strengthens our antidumping laws by guaranteeing our right to use special non-market economy methodology to address dumping for 15 years after China's accession to the WTO.

The results of this agreement will be rapid. Immediately on accession to the WTO, China will begin opening its market in virtually every sector. The phase-in of further concessions will be limited to five years in almost all cases, and in many cases one to three years. And the work ahead for China -- bilateral market access agreements with several other WTO members, most notably the European Union, and a multilateral negotiation on additional rules -- should strengthen the already very strong accession agreement we negotiated.

All these commitments are fully enforceable, through our trade laws, through WTO dispute settlement, through periodic multilateral review of China's adherence as well as multilateral pressure from all 135 members of the WTO, through increased monitoring by the U.S., with the President's request last month for a tripling of funds for China compliance and enforcement in his budget last month, and of course through other mechanisms such as the special anti-dumping and anti-import surge remedies.

PERMANENT NORMAL TRADE RELATIONS

By contrast to this historic set of commitments, we do very little. We make no changes

whatsoever in our market access policies; in a national security emergency, in fact, we can withdraw market access China now has. We change none of our laws controlling the export of sensitive technology. And we amend none of our fair trade laws.

But we have one obligation: we must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement. In terms of our China policy, this is no real change. NTR is simply the tariff status we have given China since the Carter Administration; and which every Administration and every Congress over the intervening 20 years has reviewed and found, even at the periods of greatest strain in our relationship, to be in our fundamental national interest.

But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the benefits available in one another's markets. If Congress were to refuse to grant permanent NTR, our Asian, Latin American, Canadian and European competitors will reap these benefits but American farmers and factory workers, as well as service providers, might well be left behind.

WTO ACCESSION AND CHINESE REFORM

And the costs of U.S. retreat at this most critical moment would go well beyond our export and trade interests. As even the brief review I have given indicates, China's commitments go well beyond sharp reductions of trade barriers at the border. China will:

- For the first time since the 1940s, permit foreign and Chinese businesses to import and export freely from China.
- Reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services.
- Enable, again for the first time since the 1940s, foreign businesses to participate in information industries such as telecommunications, including the Internet.
- And subject government decisions in all fields covered by the WTO to impartial dispute settlement when necessary.

These commitments are a remarkable victory for economic reformers in China. They reform policies dating to the earliest years of the communist era. They give China's people more access to information, and weaken the ability of hardliners to isolate China's public from outside influences and ideas. Altogether, they reflect a judgment -- still not universally shared within the Chinese government -- that prosperity, security and international respect will come not from the static nationalism, state power and state control China adopted after the war; but rather economic opening to and engagement with the world, and ultimately development of the rule of law.

And internationally, the WTO accession will deepen and speed a process of integration that has helped China become a more integrated, responsible member of the Pacific community.

Over thirty years, as China has reformed its economy and opened to the world, its stake in the region's stability and prosperity has grown. At the same time, China's economic reforms have helped to move its government away from the revolutionary foreign policy of the 1950s and 1960s, and towards a positive and constructive role in maintaining peace on the Korean Peninsula, in the Asian financial crisis, and as a member of the UN Security Council.

WTO ACCESSION AND AMERICAN STRATEGY

That it is why WTO accession forms part of the answer to the question posed by Qu Yuan 2300 years ago, with respect to the ways in which our very different countries can find the accommodations necessary to peace and stability.

We should never imagine that a trade agreement will cure all our disagreements. And when we disagree with China we must act with candor and firm assertion of our interests and values – as we did when China fired missiles into the Taiwan Strait four years ago; as we are doing at the UN Human Rights Commission. But this is only part of our approach; as Theodore Roosevelt said of his Open Door Policy to China in the first years of the 20th century:

“We must insist firmly on our rights; and China must beware of persisting in a course of conduct to which we cannot honorably submit. But we in our turn must recognize our duties exactly as we insist upon our rights.”

In this spirit, we recognize how important a stable and peaceful relationship with China is - for the Chinese, for the world, and for America -- and how fundamental is our responsibility to act upon shared interests and mutual benefit. We saw this responsibility clearly in the Asian financial crisis. We see it in the maintenance of peace on the Korean peninsula; the environmental problems of the Pacific; and we have seen it for over a quarter century, in trade.

Each step since 1972 has rested upon concrete American interests; helped to promote reform and the rule of law within China; and integrate China in the Pacific economy. Thus, each has strengthened China's stake in prosperity and stability throughout Asia. Together with our Pacific alliances and military commitments, in tandem with our advocacy of human rights, and in the best tradition of postwar American leadership, trade policy has helped to strengthen guarantees of peace and security for us and for the world. And China's WTO accession, together with permanent NTR, will be the most significant step in this process for many years.

CONCLUSION

So, if we have the confidence and the wisdom to make the right choice, we open an extraordinary set of possibilities.

A new and fundamentally improved trade relationship with the world's largest country, which offers practical, concrete benefits to communities throughout America: stronger guarantees

of fairness for our working people and businesses; new export opportunities that mean jobs and growth.

A decisive step toward deeper and swifter reform within China, strengthening the rule of law; offering new opportunities and hope for a better life to hundreds of millions of Chinese; and making China a country freer, more open to the world, and more responsive to the rule of law than it is today.

And a relationship with the world's largest nation which may have moments of tension and volatility, but in which we also act to find common ground and strengthen hopes for peace.

That is the opportunity before us. These are the stakes. And that is why I ask for your support as we pursue permanent Normal Trade Relations status for China on the basis of this historic agreement.

Thank you very much.